

Message Text

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PAGE 01 EC BRU 03631 081857Z

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

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E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC COMMON BORROWING -- \$500 MILLION PRIVATE PLACEMENT

REF: A) EC BRUSSELS 2794, B) EC-A-159, MARCH 29, 1976

1. EC COMMISSION MONETARY DIRECTOR JOHN NASH TELLS US THAT THE REMAINING \$500 MILLION OF THE \$1.3 BILLION EC COMMON BORROWING HAS SUCCESSFULLY BEEN PLACED. THE LOAN AGREEMENTS FOR THE \$500 MILLION PRIVATE PLACEMENT OF 4 YEAR NOTES WILL BE SIGNED ON APRIL 9, AND THE FUNDS WILL BE TRANSFERRED TO ITALY AND IRELAND SHORTLY THEREAFTER. THE EFFECTIVE COST OF THE NOTES WILL BE 8.38 PERCENT.

2. NASH SAYS OF THE 12 LEAD BANKS THE DEUTSCHE BANK TOOK \$175 MILLION OF THE PLACEMENT. THREE MAJOR SWISS BANKS ALSO PARTICIPATED IN A LARGE WAY. SEVERAL EUROPEAN CENTRAL BANKS PURCHASED SOME OF THE NOTES, BUT NASH ESTIMATES THAT TOTAL CENTRAL BANK PURCHASES WERE LESS THAN 20 PERCENT OF THE ISSUE. THE BULK OF THE FUNDS CAME FROM PRIVATE EUROPEAN AND OPEC SOURCES. HE BELIEVES A VERY SMALL AMOUNT OF THE FUNDS CAME FROM US SOURCES.

3. NASH SAYS THE EC DECISION TO PLACE THE \$1.3 BORROWING

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PAGE 02 EC BRU 03631 081857Z

OVER A SHORT TIME PERIOD CREATED SOME STRAINS ON

FINANCIAL MARKETS, ESPECIALLY ON THE EUROBOND MARKET.
THE EC WAS FORTUNATE THAT MARKETS WERE LIQUID AND
WERE CONSEQUENTLY RECEPTIVE TO THE BORROWING. NASH
WOULD PREFER TO DIVIDE ANY FUTURE BORROWING INTO
SEVERAL TRANCHES AND SPREAD THE BORROWING OVER A NUMBER
OF MONTHS. NASH ADDS THAT THE COMMUNITY WOULD HAVE
HAD FEWER DIFFICULTIES AND OBTAINED MORE FAVORABLE TERMS IF
IT HAD BORROWED ALL OF THE FUNDS ON THE EUROCURRENCY MARKET
AT A VARIABLE INTEREST RATE RATHER THAN MAKING THE BULK
OF THE BORROWING AT FIXED RATES. (EARLIER NASH HAD TRIED
TO PERSUADE THE MEMBER STATES TO AUTHORIZE BORROWING OF THE
BULK OF THE \$1.3 BILLION AT A VARIABLE
INTEREST RATE.) HINTON

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